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SUBJECT: LABOR SHIFTS PUT PRESSURE ON MANUFACTURERS

REF: A) HANOI 193, B) HANOI 56, C) 07 HO CHI MIN 1196, D) 07 HANOI 2013, E) HCMC 239

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11. (SBU) Southern Vietnam's manufacturing workers are striking in the normally calm post-Tet Lunar New Year months, a precedent that sets the stage for higher wages yet to come. In one of Binh Duong province's key industrial parks, strikes persisted even though local average wages had climbed 30 percent in just three months. Privately, some officials worry that southern Vietnam is losing its competitive advantage -- low cost labor. This wage inflation is a natural consequence of development, others argue, and we should be encouraged to see that market forces, rather than central planning, are driving the reallocation of scarce human resources to higher value-added industries. A window of opportunity is opening for USG-GVN collaboration on projects that can improve the functioning of Vietnam's labor markets. End summary.

#### Strikes Take a New Turn in the Southern Key Economic Zone

12. (SBU) Because strikes are relatively common events in Vietnam, few factory managers we talked to in January were concerned when tens of thousands of workers participated in 23 walkouts in Dong Nai, 10 in Binh Duong and 10 in Ho Chi Minh City. More than 2,000 strikes have occurred over the past 10 years, especially in the months before the Vietnamese Tet New Year holiday. One U.S. company country manager told us that 15.7 percent inflation, misunderstandings about the government mandated minimum wage increases and migrant worker's desire for extra "pocket money" to take home for Tet were all driving workers to strike. And in fact, according to the Ministry of Labor, Invalids and Social Affairs (MOLISA), workers did earn raises averaging 13 percent, enabling them to take home an average "Tet bonus" of \$75 dollar per person.

13. (SBU) But the same factory managers we talked to in January were increasingly distressed by early March. The predictable pre-Tet labor unrest continued through the February 6-11 holiday and into March, longer than ever before. On February 20 more than 4,500 workers at one Korean-invested Nike subcontractor in HCMC's Cu Chi district went on strike. Other late February walk outs were reported in HCMC, Binh Duong and Ba Ria Vung Tau provinces.

You Have to Have Workers in Order to Have Strikes

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14. (SBU) Migrant labor from Vietnam's central coast and Mekong Delta regions makes up 70 percent of Binh Duong's labor force, according the head of the provincial industrial zone authority. When workers went home for Tet this year, many found new factories open and hiring closer to their homes and families. For example, industrial parks in Danang City advertised 10,000 factory positions on offer. GVN development strategies and the broadening scope of foreign direct investment enabled factories to open in new areas, especially in the central coast (ref C). As a result, many workers found work closer to home, enabling them for the first time to forego their old jobs in the south.

15. (SBU) The seasoned company manager of Kimberly-Clark, a U.S. paper products manufacturer, found that just 40 percent of their contract laborers returned after this holiday season, far fewer than in past years. His informal survey of 13 other large factories in the Vietnam Singapore Industrial Zone (VSIP) confirmed the poor rate of return. Half the VSIP factories hung banners looking for workers when we visited in March. In an effort to attract workers, wages on offer had climbed up 30 percent over early January to more than U.S. \$70 per month. The manager said he does not expect the factory to approach full capacity until April.

16. (SBU) VSIP managers talked around questions of a labor shortage in the provinces surrounding HCMC, saying that even VSIP's most labor-intensive industries have been able to scrape by. They emphasized efforts to recruit additional unskilled workers from the Mekong Delta.

#### Consequences for the Export Sector

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17. (SBU) Many of the U.S. companies we interviewed that purchase goods made in Vietnam believe that the rising cost of living, wage inflation and new employment opportunities are leading to strikes in labor-intensive industries and creating long-term uncertainty, hence trouble, for Vietnam's economy. One of the largest U.S. home improvement retail chains said that his

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company's "just in time" supply-chain management allows no tolerance for supply delays. A single week-long delay earlier this month likely means that the company will no longer source that product in Vietnam.

#### Beginning the Push toward Higher Value Goods

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18. (SBU) One farsighted Binh Duong provincial Party Committee member pointed out that while the backbone of Vietnam's competitive advantage is still cheap labor, the best industrial parks in the most progressive provinces are pioneering a transition to high-tech manufacturing requiring highly skilled workers and proficient engineers. As labor-intensive garment factories relocate to areas with cheaper land and labor, they are often replaced by high-tech companies. He pointed to VSIP (Singaporean) in Binh Duong and Tan Thuan High Tech Park (Taiwanese) in HCMC as prime examples, saying "this is the result of market forces at work".

19. (SBU) For the time being Vietnam needs to foster both labor intensive and high-tech industry, the Binh Duong official added, saying that the Vietnam-Singapore Training Center (part of VSIP) offers training for unskilled workers, in part to attract them to the province, and trains the high-skilled workers that high-tech manufacturers require. VSIP management said the park now boasts a growing roster of U.S.-invested technology companies including Johnson Controls, Spartronics (printed circuits and electronic final products), Unigen (precision machining) and Vector Fabrication (electronic components) among others.

#### Comment:

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110. (SBU) This year's post-Tet strikes demonstrate that Vietnam's economy is straining under the weight of rapid and

sustained economic growth. The provincial officials we talk with understand that turmoil and uncertainty in Vietnam's labor market have the potential to scare off companies thinking about investing or buying goods manufactured in this country. We continue to emphasize that the United States shares Vietnam's interest in programs that strengthen support for workers -- especially those that foster workers' participation in labor-governance reforms and increase access to legal-redress mechanisms. Additional regulatory transparency and good governance are essential for Vietnam's workers to make informed choices. We expect that carefully constructed assistance programs addressing this increasingly shared interest would be well received. End comment.

¶11. (U) This cable was coordinated with Embassy Hanoi.  
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